Australian
Payments Network
Connect Inspire Thrive

FRAMING THE NEXT GENERATION OF PAYMENTS

Annual Review 2018

Australian
Payments
Network
Connect Inspire Thrive

CONTENTS

This Annual Review is designed to provide our members and stakeholders with a summary of what was achieved in financial year 2017-2018. References in this report to a year are to financial year ended 30 June 2018 unless otherwise stated.

All location photos in this Annual Review were taken by AusPayNet staff. We are delighted to feature them in this year's report.

Australian Payments Network champions the payments system.

We enable competition and innovation, promote efficiency, and manage risk to deliver improvements for all users of the payments system.

We bring together a diverse range of organisations including financial institutions, major retailers, payment systems operators and technology providers. Our network includes more than 120 members and participants, and we welcome involvement from all organisations with a significant interest in payments.

In our role as the self-regulatory body for payments, we take an inquisitive, front-footed approach to help frame the next generation of payments.

FRAMING THE FUTURE

The payments system is evolving faster than ever as consumers, businesses, and regulators embrace the digital world. To stay abreast of the changing landscape, we focus on three core areas.

Payments Innovation

Consumer preferences, advances in technology and regulatory changes are opening up new opportunities. This year, through wide collaboration, we developed new frameworks and standards to help bring innovative offerings to market faster with reduced risk.

Effective Self-Regulation

Alongside exciting opportunities, the rapidly changing landscape also exposes new risks. We are responding in a way that improves efficiency and competition, and ensures a robust payments system.

Leadership in Collaboration

Embracing new opportunities and challenges involves coordination and collaboration. We bring together a diverse set of participants to harness the benefits of change, and make payments thrive.

CHAIR AND CEO MESSAGE

This financial year, we saw payments evolve in ways that are accelerating change and likely to shape our industry for decades to come.

New York Times columnist Thomas Friedman recently described our era as 'the age of accelerations'. While referring to the non-linear acceleration that can be observed today in such areas as technology, globalisation and climate change, his concept is equally relevant to Australia's payments industry. Such rapid change can be overwhelming, but we are pleased to say that our industry has embraced the challenge.

Framing fast, convenient and secure payments

A highlight of the year was the launch in February of the New Payments Platform (NPP). We are proud of NPP's roots within AusPayNet, where our team led the early industry collaborative work. Its success is an example of productive multi-stakeholder collaboration in payments - congratulations go to all involved.

This year also saw advances in open-loop payments in transport. We supported a Sydney pilot conducted by Transport for NSW, in which commuters were able to pay their fare using contactless cards, smartphones or wearables rather than an Opal card. The highly successful trial has been expanded.

AusPayNet undertook important work to plan for the open data regime which will commence in Australia in mid-2019. A successful two-day Australian Payments Council (APC) 'hackathon' coordinated by AusPayNet in late 2017 provided a sound starting point for ongoing industry collaboration on open data.

Statistics released in our fraud report for 2017 showed that card-not-present (CNP) fraud accounted for almost 85% of all fraud on Australian cards. As chip technology has strengthened protections for in-person fraud, criminal activity is migrating online. In response, AusPayNet led a collaborative initiative across the e-commerce community to tackle CNP fraud. Together, we have developed a high-impact framework, with broader consultation underway.

Digital Identity was once again a fast-moving space for policy and technology development in FY18. This too is a highly complex area requiring cross-industry collaboration. We are coordinating efforts through the APC, including working with the Federal Government's Digital Transformation Agency, with an agreed framework expected at the end of 2018.

Embracing new technologies and standards

A large part of AusPayNet's focus in FY18 was working to ensure that new payments technology – increasingly software-based - is accommodated appropriately. Close attention has been paid to encouraging best practice in the adoption of new technologies such as blockchain, and secure application of existing technology in new ways such as PIN on glass.

Of course, new technology means new payments participants. We have worked hard to ensure that our membership criteria and processes are inclusive. We were delighted to welcome 12 new members during the year.

Looking ahead

The force of change in our industry is not unique to Australia. Looking offshore, the intense interest in payments by non-traditional participants – Facebook, Snapchat, Google among them – is hard not to miss, and a by-product of the ubiquity of smartphones.

The landscape is shifting rapidly and the payments world we know today may not be recognisable in a decade's time. It is therefore critical that Australia's world-class system – including the regulations governing it – continues to adapt and remain fit for purpose.

AusPayNet is committed to ensuring the payments system embraces innovation, while remaining efficient, competitive, and secure. As busy as FY18 was, the year underway is shaping up to be at least as challenging. We extend heartfelt thanks to our fellow directors, members, the RBA and other regulators, and all of our stakeholders for their generous support and ongoing contribution. We also thank the AusPayNet team for their dedication, enthusiasm and passion for making payments thrive.

Robert Craig, Chair

Leila Fourie, CEO

HIGHLIGHTS

In collaboration with transport authorities, we developed a

NATIONAL OPEN LOOP TRANSPORT PAYMENTS FRAMEWORK

The new framework is designed to ensure a consistent customer experience as transport authorities across Australia implement contactless credit and debit card payments for transit.

Ramping up the fight against online card fraud, our

ACCELERATOR EVENT

held in collaboration with the Reserve Bank of Australia, brought together the e-commerce community. Participants reached clear consensus to develop the CNP Fraud Mitigation Framework.

We lodged submissions to Government to help

SHAPE THE FUTURE OF PAYMENTS REGULATION

on Open Banking, Competition in the Australian Financial System, the Black Economy and the Digital Economy.

Supporting new technologies, we contributed to the development of

NEW INDUSTRY STANDARDS

including PCI security standards for card acceptance and ISO global standards for blockchain.

This year, we added a new flagship event to our calendar, holding our

FIRST AUSTRALIAN PAYMENT SUMMIT

in December 2017. More than 250 experts and innovators from across the payments landscape participated in the one-day event.

We led the creation of an APAC / Pacific rim

PAYMENTS THINK TANK - P7

for open dialogue about common themes impacting the region.
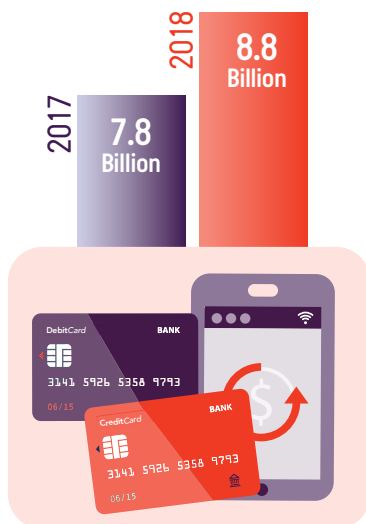
AUSTRALIAN PAYMENTS LANDSCAPE

The payments system is evolving faster than ever as consumers, businesses, and regulators embrace the digital world.

Australia's adoption of digital services continues increasing in both scope and number

AUSTRALIA IS RANKED IN THE TOP 10 FOR DIGITAL READINESS

10th out of 118 countries

ONLINE SHOPPING CONTINUES TO GAIN INCREASING MOMENTUM

$22.7 Billion 2017

$26.5 Billion 2018

16.7%

Sources: Cisco Australian Digital Readiness Index; NAB Online Retail Sales Index

Consumers are consistently choosing digital payment methods

2017 **7.8 Billion**

2018 **8.8 Billion**

CARD USE GREW BY A RECORD 12.7%

4.2%

DIRECT ENTRY PAYMENTS GREW BY 4.2% TO 3.9 BILLION

99.9 Million

80.4 Million

-20%

2017   2018
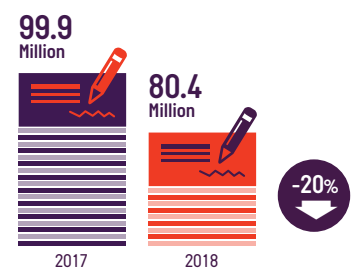
CHEQUE USE CONTINUES TO PLUMMET

AUSTRALIA

DOWN ▼ 4%

ATM WITHDRAWALS DROPPED TO 600 MILLION

Source: Reserve Bank of Australia

Mobile is leading digital adoption

9 OUT OF 10 PEOPLE OWN A SMARTPHONE

7 OUT OF 10 SMARTPHONE OWNERS MAKE **PAYMENTS ON THEIR PHONE**

Sources: Deloitte Mobile Consumer Survey; Paypal mCommerce Index

As digital habits change so too do Australia's preferences around security

6% OF AUSTRALIANS ARE COMFORTABLE USING THEIR THUMBPRINT, VOICE OR RETINA FOR PAYMENT

31% OF ALL SMARTPHONE OWNERS AGES 16-75 USE FINGERPRINT RECOGNITION

Sources Visa; Deloitte

The New Payments Platform is set to drive the evolution of payments

CLOSE TO **60 PARTICIPATING** FINANCIAL INSTITUTIONS

SOME 2 MILLION REGISTRATIONS FOR THE **PAYID ADDRESSING SERVICE**

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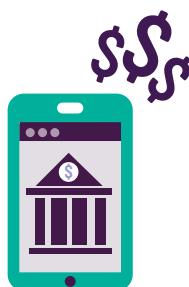
Source: NPP Australia Limited

Australia is punching above its weight in Fintech

650 FINTECHS ARE OPERATING IN AUSTRALIA, A FIVEFOLD INCREASE SINCE 2014
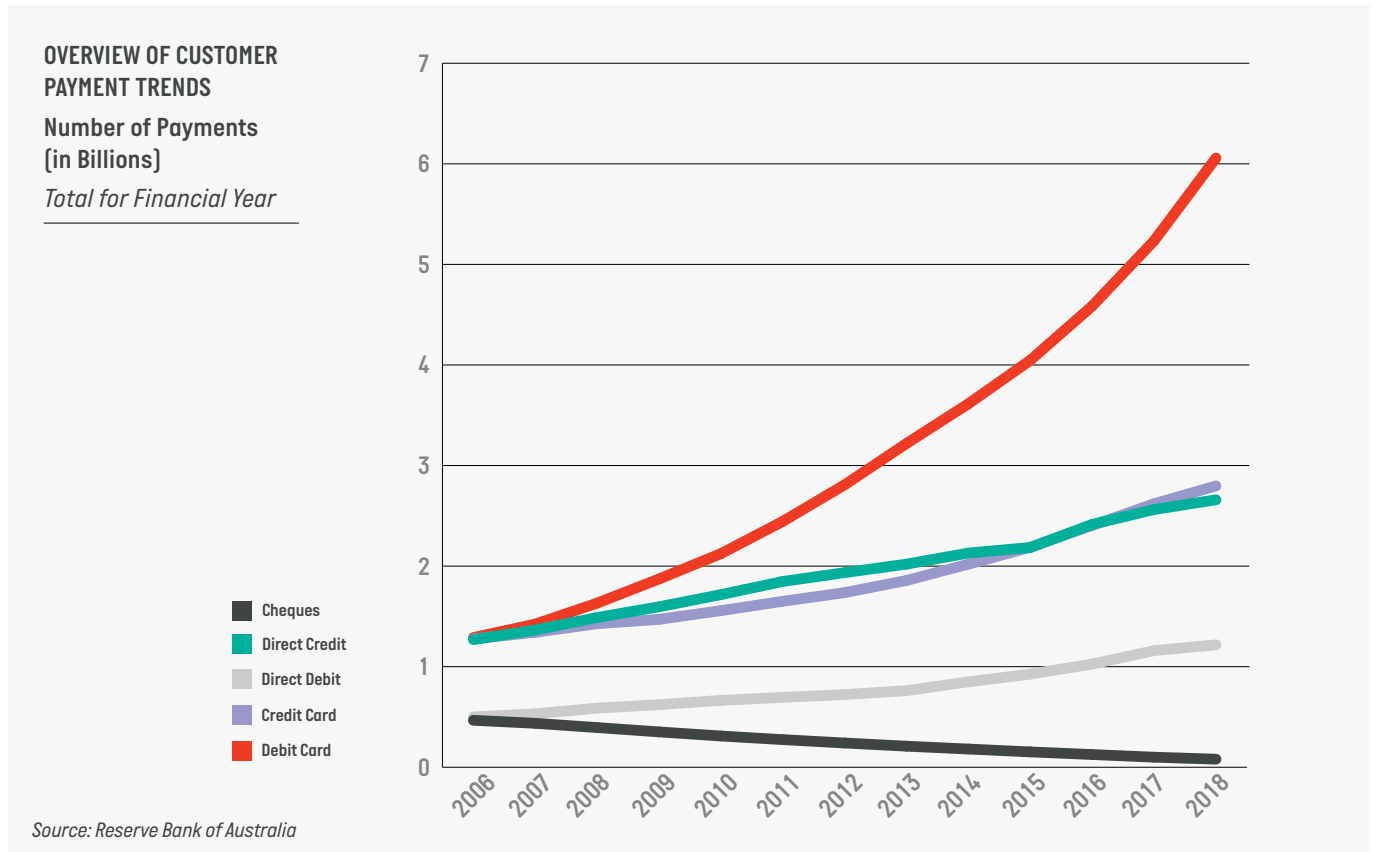
A DIGITAL-ONLY BANK IS GRANTED APRA'S FIRST RESTRICTED ADI LICENCE

Top 5

AUSTRALIA IS RANKED IN THE **TOP 5 COUNTRIES** FOR FINTECH ACTIVITY

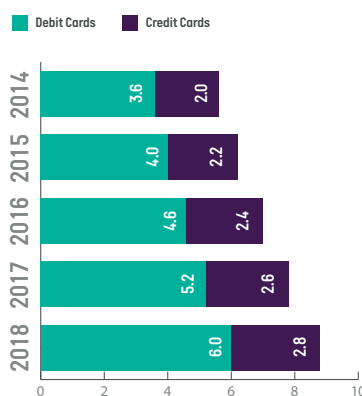*Source: KPMG Australian Fintech Landscape; APRA; EY FinTech Australia Census*

Customer preference for digital payments provides a powerful base for innovation.

OVERVIEW OF CUSTOMER PAYMENT TRENDS

Number of Payments (in Billions)

Total for Financial Year

Legend:
- Cheques
- Direct Credit
- Direct Debit
- Credit Card
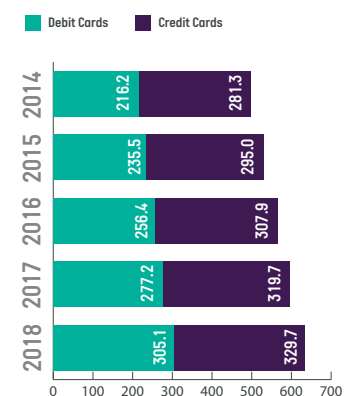- Debit Card

Source: Reserve Bank of Australia

Cards

Cards are the most popular payment method in Australia. This year, card use grew by 12.7%, the highest rate in a decade, to reach 8.8 billion transactions. Debit cards dominate, representing 68.4% of all card payments. Debit cards witnessed the highest growth rate ever, soaring by 15.7% to 6.0 billion transactions. Debit card values increased to $305 billion – up 10.0%, the first double digit growth rate since 2013. Credit card growth remains consistent, increasing by 6.7% in number to 2.8 billion, and by 3.1% in value to $329.7 billion this year.

NUMBER OF CARD PAYMENTS (Billions)

Legend: Debit Cards, Credit Cards

Year	Debit Cards	Credit Cards
2014	3.6	2.0
2015	4.0	2.2
2016	4.6	2.4
2017	5.2	2.6
2018	6.0	2.8

VALUE OF CARD PAYMENTS ($ Billions)

Legend: Debit Cards, Credit Cards

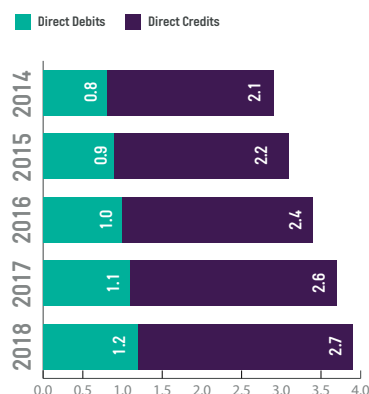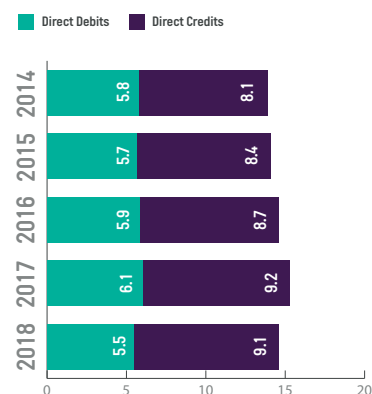| Year	Debit Cards	Credit Cards
2014	216.2	281.3
2015	235.5	295.0
2016	256.4	307.9
2017	277.2	319.7
2018	305.1	329.7

Source: Reserve Bank of Australia

Direct Entry

The number of direct credits reached 2.7 billion – up 3.8%. By value, direct credits largely remained steady, dipping down 0.6% to $9.1 trillion. Direct debits followed a similar pattern, growing in number by 4.9% to 1.2 billion, but dropping in value by 8.7% to $5.5 trillion. Some value is likely moving to cards, and while still early days, to the NPP, following its launch in February 2018.

### NUMBER OF DIRECT ENTRY PAYMENTS
(Billions)

Direct Debits ■ Direct Credits

Year	Direct Debits	Direct Credits
2014	0.8	2.1
2015	0.9	2.2
2016	1.0	2.4
2017	1.1	2.6
2018	1.2	2.7

VALUE OF DIRECT ENTRY PAYMENTS
($ Trillions)

Direct Debits ■ Direct Credits

Year	Direct Debits	Direct Credits
2014	5.8	8.1
2015	5.7	8.4
2016	5.9	8.7
2017	6.1	9.2
2018	5.5	9.1

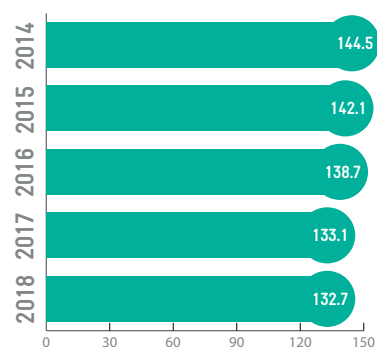*Source: Reserve Bank of Australia*

Cash

ATM withdrawals continued their steady decline, falling to 600.2 million – down 4.0%. This compares to a 7.5% drop last year. The value of ATM withdrawals remained at around $133.0 billion, down a slight 0.3%, compared to a 4.0% drop in 2017. The slowing rate of decline suggests that Australians are using ATMs more often following the removal of ATM direct charges to non-customers from September 2017. Notwithstanding this, ATM withdrawals have dropped by 21.1% since 2014.

NUMBER OF CASH WITHDRAWALS
(Millions)

Year	Value
2014	760.6
2015	723.5
2016	675.8
2017	625.4
2018	600.2
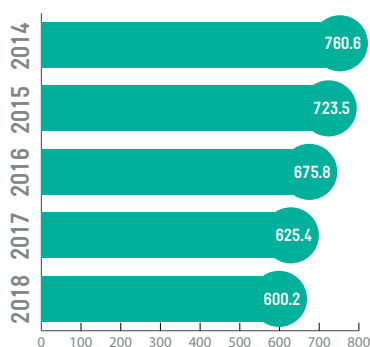
VALUE OF CASH WITHDRAWALS
($ Billions)

Year	Value
2014	144.5
2015	142.1
2016	138.7
2017	133.1
2018	132.7

Source: Reserve Bank of Australia

Cheques

Cheque use plummeted by 19.6%, with cheques numbers dropping from 99.9 million to 80.4 million. This follows a 21% drop in 2017. Cheque values dropped by 12.5% to $1 trillion. The rate of decline in value is the strongest since 2009, and the first double-digit fall since 2011.

NUMBER OF CHEQUE PAYMENTS
(Millions)

Year	Value
2014	181.0
2015	152.6
2016	126.4
2017	99.9
2018	80.4
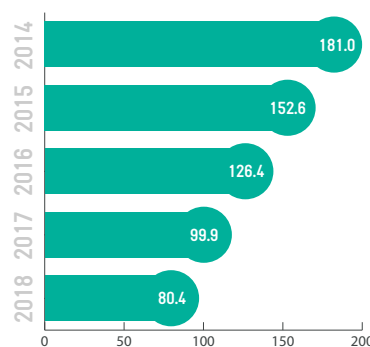
VALUE OF CHEQUE PAYMENTS
($ Trillions)
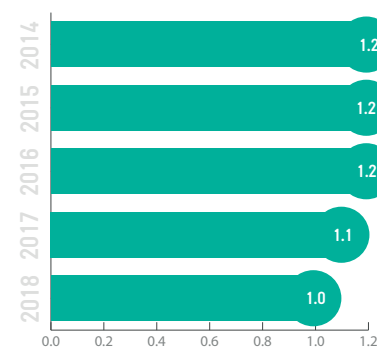
Year	Value
2014	1.2
2015	1.2
2016	1.2
2017	1.1
2018	1.0

Source: Reserve Bank of Australia

PAYMENTS INNOVATION

Consumer preferences, advances in technology and regulatory changes are opening up new opportunities. This year, through wide collaboration, we developed new frameworks and standards to help bring innovative offerings to market faster with reduced risk.

Frameworks and common standards play an important role in providing a whole of industry approach to enabling secure payments innovation.

Contactless payments for transit

In collaboration with transport authorities and industry, this year, we released a national Open Loop Transport Payments Framework. This builds on the framework we developed last year with Transport for NSW to support Australia's first Contactless Transport Payments Trial launched in July 2017. The initiative, which started on Sydney's Manly ferry, enables customers to pay for transit using their own debit or credit card (or smartphone or wearable, rather than an Opal card). Following the trial's success, Transport for NSW expanded contactless payments to all Sydney ferries (and a light rail line) in March 2018.

The new Open Loop Transport Framework is designed to help transport authorities and partners across Australia introduce contactless payments for transit. In addition to providing guidance on selecting secure implementation models, the national framework ensures a consistent ticketing experience for customers.

Ensuring security of all card accepting devices

As open loop payments become more widespread outside the retail sector, industry is ensuring the security of all card accepting devices. This year, our Issuers and Acquirers Forum expanded AusPayNet's device certification program beyond ATM and POS devices to include all devices that accept debit and credit card payments. The expanded scope covers for example, transit devices, vending machines and parking meters. The new requirements come into effect from 1 July 2019.

Some 60 card-accepting devices and systems were approved through our device certification program this year - up 20% on the 2017 financial year.

Supporting secure innovation

Standards frameworks help instil community confidence in emerging technologies. An important part of our work involves developing AusPayNet's security rules as new technologies emerge and contributing to national and international standards developments. This year, we contributed to the development of a new PCI security standard to protect PINs entered on commercial off-the-shelf devices (like smartphones and tablets) used by merchants. The PCI security standard was published in January 2018.
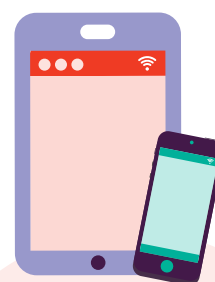
more than
60 devices approved
20%

The new Open Loop Transport Framework is designed to help transport authorities and partners across Australia introduce contactless payments for transit.
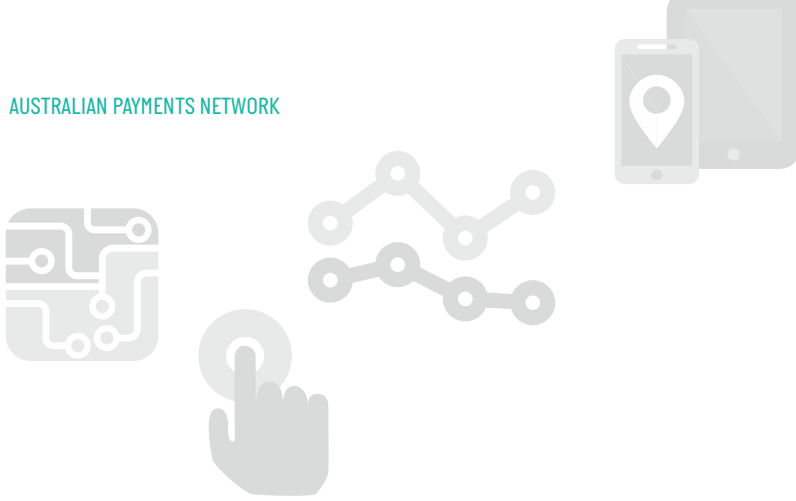
Blockchain

As blockchain explorations continue, we are likely to see new applications and solutions roll-out. AusPayNet is monitoring developments. We also participate on the ISO committee developing global standards for blockchain and distributed ledger technologies. In May 2018, we joined 130 participants from 35 ISO members to review draft standards for reference architecture and interoperability, security and privacy, and smart contracts. With good progress made, ISO expects to publish the first draft reports by mid-2019.

New infrastructure to support innovation

The launch of the New Payments Platform (NPP) in February 2018 was a landmark for payments innovation. The NPP is next-generation infrastructure equipped to meet evolving customer needs. Services built on the NPP leverage the benefits of near-instant, flexible, data-rich payments, 24/7/365. This can be seen in the first service 'Osko', which offers customers an easy way to pay one another via a mobile phone number. AusPayNet was instrumental in the early development of the NPP including the establishment of NPP Australia. We were delighted to welcome NPP Australia as an Operator member in December 2017.

Data sharing and open banking

The trend towards open banking is a common global theme. To explore the potential and challenges of data sharing, in August 2017, we supported the Australian Payments Council's highly successful two-day 'hackathon'. The event saw teams from across Australia using payments data to develop apps ranging from financial planning to rewards program comparison. The hackathon was a valuable starting point for industry collaboration around open data.

Open data is gaining real momentum in Australia. The Government's decision to implement a Consumer Data Right (CDR) and more specifically open banking presents new opportunities for consumer driven innovation. The CSIRO's Data61 is leading the development of technical standards for the CDR, as the Data Standards Body (DSB). Our Chief Operating Officer, Andy White is a member of the committee advising the DSB, along with representatives from data holders, data recipients and consumer and privacy advocates.

Digital ID

Through the Australian Payments Council, the industry is developing a standards-based trust framework that will support more convenient and secure ways for individuals and organisations to interact online. The work has involved close engagement with the fintech community and Government.

The future of payments

This year, we developed a technology and innovation roadmap to guide our focus on the next generation of payments. We are now actively exploring technologies like QR codes, AI, and biometrics and the implication for Australian payments.

In the coming year, through industry consultation, we will deliver a clear vision for the future of Australia's payment systems, and the messaging that supports them.

We are now actively exploring technologies like QR codes, AI, and biometrics and the implication for Australian payments.

EFFECTIVE SELF-REGULATION

Alongside exciting opportunities, the rapidly changing landscape also exposes new risks. We are responding in a way that improves efficiency and competition, and ensures a robust payments system.

FRAUD PREVENTION

Combatting card fraud is a key industry priority. This year, we joined forces with the broader e-commerce community to ramp up the fight against online card fraud.

Payments fraud is changing in line with consumer preferences. The steady rise in online shopping effectively illustrates the changing payments landscape. Globally, online sales continue to account for a growing portion of total retail. In line with global trends, the shift towards online shopping is also seeing rising online payment fraud. In 2017, card-not-present (CNP), mainly occurring online, accounted for 85% of all fraud on Australian cards.

Ramping up the fight against online fraud

In February 2018, we held an Accelerator event in cooperation with the Reserve Bank of Australia, to ramp up the fight, and accelerate the adoption of online fraud prevention measures. The event brought together the entire range of e-commerce stakeholders to expedite a new, whole of industry approach for tackling CNP fraud (see page 21). Participants reached clear consensus to develop a high-impact industry framework, underpinned by collaboratively agreed principles.

CNP Fraud Mitigation Framework

In close consultation with the e-commerce community, we have been leading industry work to develop the CNP Fraud Mitigation Framework. The new framework clearly defines actions and responsibilities for reducing CNP fraud across the online payments community. For example, issuers will adopt targets for lowering online fraud on their card-bases. The industry has also set a benchmark for acceptable fraud risk for merchants. Merchants with fraud rates above this level will be required to use multi-factor authentication measures, except for exempt transactions. Multi-factor authentication adds layers of security by using more than one attribute to verify consumers online.

We continue to work closely with the e-commerce community to garner feedback on the Framework. The next steps involve drafting implementation guidelines and consulting on implementation timeframes. Compliance with the framework is expected to be enforced through AusPayNet's IAC Code Set.

Chip technology protecting against in-person fraud

Last year, we reported that industry had completed the roll-out of chip technology at ATMs. With the clear majority of cards, POS terminals and ATMs now EMV compliant, counterfeit/skimming fraud dropped to the lowest value since we first published fraud statistics in 2006. Continued efforts at every level, and close cooperation with law enforcement, are providing strong protection for in-person fraud.

Evolving security standards

AusPayNet is at the front line of standards development for card payments security. This includes Australian standards and global ISO and PCI standards. This year, Standards Australia published revised standards for cryptographic keys used to initialise POS terminals (AS2805.6.5.3). We contributed to this major work, the first in a substantial review of the AS2805 suite. More broadly, AusPayNet continues to review relevant standards from PCI, EMVCo, ISO, NIST, Fast IDentity Online Alliance (FIDO) and W3C (the World Wide Web Consortium) to improve global card payment security.

Next generation banknotes

While cards have overtaken cash as the most popular payment method, cash remains important. The Reserve Bank of Australia is progressively rolling-out next generation banknotes to ensure Australia's currency remains among the most secure against counterfeiting. Following release of the new $10 banknote in September 2017, industry is preparing for the new $50 banknote in October 2018 - the first to impact Australia's ATM network. We are monitoring upgrades and reconfigurations to ATMs, as well as to cash equipment and dispensing machines, to ensure a smooth transition once the new $50 banknote enters circulation.

We represent industry on domestic and global standards bodies.

ISO/TC68 Financial Services

ISO/TC68 FinTech – Technical Advisory Group

ISO/TC68/SC2 Financial Services Security

ISO/ TC68/SC2/Working Group 11

ISO/TC68/SC2/Working Group 13

ISO/TC68/SC7 Core Banking

ISO/TC68/SC7/Working Group 10

ISO/TC307 Blockchain and Distributed Ledger Technologies

ISO20022 Registration Management Group

Standards Australia Committee IT/5

Standards Australia Committee IT/5/3

Standards Australia Working Group IT/5/4

Standards Australia Working Group IT/5/8

SWIFT Australian National Member Group

SWIFT Australian User Group

Payments Card Industry Security Standards Council (PCI SSC) (Affiliate member)

PCI SSC Mobile Working Group

PCI SCC PIN Assessment Working Group

PCI SSC PIN Transaction Security Working Group

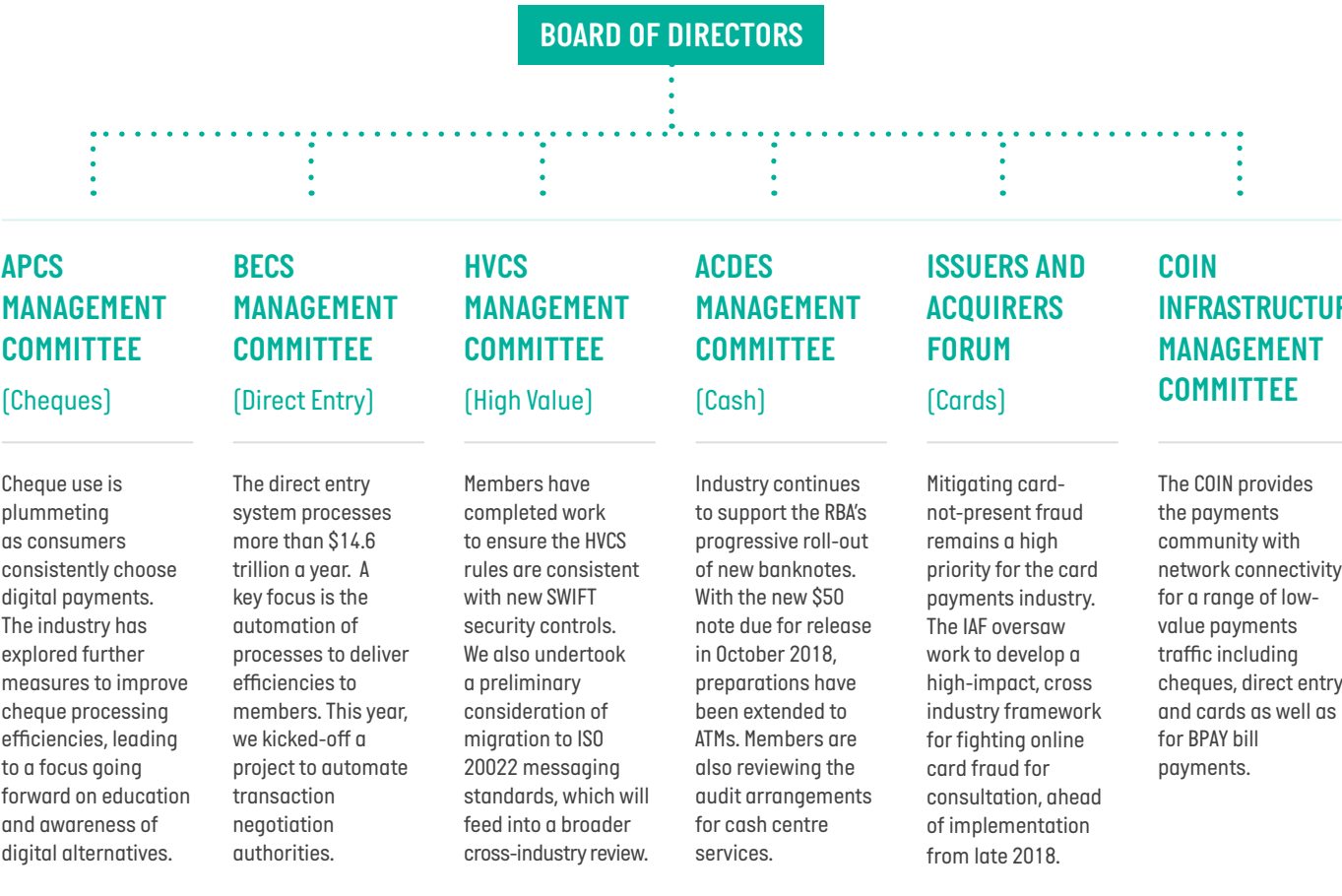PCI SSC Software Security Working Group

CORE PAYMENT SYSTEMS

An important part of our role is managing core payments systems and frameworks. These rules, procedures and common standards ensure payments are exchanged safely and securely.

AusPayNet manages core systems for cards, direct entry, cheques and high-value payments. We also manage frameworks for the bulk distribution of cash, and the Community of Interest Network (COIN) infrastructure system.

Through management committees of member representatives, we update and develop new industry-wide rules and procedures to support the evolving payments environment. A summary of some developments is provided below.

This year, we also began investigating moving to a more agile, principles-based approach to ensure that our governance frameworks, rules and procedures continue to be sound, resilient and flexible enough in the face of exponential change.

BOARD OF DIRECTORS

APCS MANAGEMENT COMMITTEE

(Cheques)

Cheque use is plummeting as consumers consistently choose digital payments. The industry has explored further measures to improve cheque processing efficiencies, leading to a focus going forward on education and awareness of digital alternatives.

BECS MANAGEMENT COMMITTEE

(Direct Entry)

The direct entry system processes more than $14.6 trillion a year. A key focus is the automation of processes to deliver efficiencies to members. This year, we kicked-off a project to automate transaction negotiation authorities.

HVCS MANAGEMENT COMMITTEE

(High Value)

Members have completed work to ensure the HVCS rules are consistent with new SWIFT security controls. We also undertook a preliminary consideration of migration to ISO 20022 messaging standards, which will feed into a broader cross-industry review.

ACDES MANAGEMENT COMMITTEE

(Cash)

Industry continues to support the RBA's progressive roll-out of new banknotes. With the new $50 note due for release in October 2018, preparations have been extended to ATMs. Members are also reviewing the audit arrangements for cash centre services.

ISSUERS AND ACQUIRERS FORUM

(Cards)

Mitigating card-not-present fraud remains a high priority for the card payments industry. The IAF oversaw work to develop a high-impact, cross industry framework for fighting online card fraud for consultation, ahead of implementation from late 2018.

COIN INFRASTRUCTURE MANAGEMENT COMMITTEE

The COIN provides the payments community with network connectivity for a range of low-value payments traffic including cheques, direct entry and cards as well as for BPAY bill payments.

POLICY

The digitisation of the global economy presents both challenges and opportunities. A self-regulatory approach continues to be the best way to navigate this journey.

The regulatory landscape is becoming more fragmented

The Productivity Commission (PC), in its Final Report on Competition in the Australian Financial System, recognised that there is scope for providers to compete within and between different payment methods, and for new entrants to the payments system. The Government continues to progress regulatory changes to encourage greater participation into financial services.

In May 2018, APRA introduced a Restricted ADI (RADI) licencing framework. This enables start-ups to operate under a RADI licence for two years, while preparing to become an ADI. The framework aims to strike a balance between encouraging competition and maintaining safety and stability of the banking system.

A need to balance innovation and risk

In November 2017, the Government announced the introduction of an economy-wide Consumer Data Right (CDR), committing to a phased implementation for open banking from July 2019. Open banking enables customers to share their transaction data with trusted third parties if they choose to do so. This provides exciting opportunities for innovation, but it is crucial that the right framework and systems are put into place to protect customers and their payments. We have engaged with the Treasury, ACCC and CSIRO's Data61 on implementation issues affecting our members.

The changing way consumers pay and policy considerations

This year, the Government continued to explore policy implications around the rise of digital payments. AusPayNet made a number of submissions seeking self-regulatory and market-based outcomes that promote competition and choice.

Black Economy Task Force (BET)

The BET noted the potential for electronic payments to bring greater transparency to money flows within the economy. One of its recommendations was the introduction of an economy-wide cash payment limit of $10,000 made to businesses for goods or services from 1 July 2019. Among other things, our submission highlighted that the mandate of the $10,000 cash payment was an opportunity for government to support industry's work in helping all Australians transition to digital payment methods.

Competition in the Australian Financial System

The PC recommended a ban on card payment interchange fees by the end of 2019. In our submission, we highlighted that previous reviews (2014 Financial System Inquiry, 2015-16 RBA Review of Card Payments Regulation) have decided not to proceed with sharply reduced interchange fees as they can lead to costs being recovered in other ways, including from customers. Our submission supported proposals for a review of Purchased Payment Facilities (PPF) and the ePayments Code. PPFs provide stored value products. A review of the PPF regime

is being undertaken by the RBA and APRA. The intention is to create a simplified tiered regulatory framework.

Infrastructure investment and financial inclusion are essential

To ensure that the digital economy and payments can continue to thrive, public investment in digital infrastructure, including broadband, needs to continue. Australians also need appropriate skills, support and confidence to use digital payments. The payments industry has undertaken research to understand the payment preferences of Australians, which will inform a strategy for managing declining payment methods such as cheques. Through digital education and support programs, government can also assist in ensuring that all Australians are able to access emerging payment methods.

OUR SUBMISSIONS THIS YEAR

Aug 2017: Black Economy Taskforce: Interim Report

Sep 2017: Treasury: Open Banking Review

Sep 2017: Productivity Commission: Competition in the Australian Financial System – Issues Paper

Nov 2017: Department of Industry, Innovation and Science: Digital Economy Consultation

Mar 2018: Productivity Commission: Competition in the Australian Financial System – Draft Report

Jun 2018: Treasury: Introduction of an Economy-Wide Cash Limit

LEADERSHIP IN COLLABORATION

Embracing new opportunities and challenges involves coordination and collaboration. We bring together a diverse set of participants to harness the benefits of change, and make payments thrive.

Through our network, we work closely with industry, government, regulators and all stakeholders to frame the future of payments. We create the right environment for cross-industry collaboration.

Working with Government

Given the changing payments landscape, AusPayNet continues to work closely with public regulators including the Reserve Bank of Australia (RBA), Australian Prudential Regulation Authority (APRA), Australian Securities and Investments Commission (ASIC) and the Australian Competition and Consumer Commission (ACCC). We also liaise with Government departments and agencies including The Treasury, the Digital Transformation Agency (DTA) and the Productivity Commission (PC) on issues of payments policy.

Member events program

Throughout the year, we held member events exploring the latest trends, and the opportunities and challenges for Australian payments. This year's program included sessions on Digital ID in July 2017 and February 2018, the NPP in August 2017, Stronger Authentication in March 2018, the UK's Open Banking experience in March 2018 and Artificial Intelligence in June 2018. As part of these sessions, we were delighted to host guest speakers from Australia, Canada, the United Kingdom and the United States.

Australian Payment Summit

This year, we added a new flagship event to our program, holding our first Australian Payment Summit in December 2017. More than 250 experts and innovators from across the payments landscape participated in the one-day event.

Themed "Towards a New World of Payments", the Summit covered a range of topics, including open banking, payments fraud, digital ID, blockchain and cryptocurrencies, and featured a fintech showcase. We were delighted to have Dr Philip Lowe, Governor of the RBA, present the Bank's view on "an e-AUD?", alongside market experts who shared local and international perspectives on topical issues. The event also provided a valuable networking opportunity.

Building on this success, we have expanded the Summit to a two-day event in 2018, to be held on 26-27 November in cooperation with Currency Research. We are delighted that Dr Lowe has accepted our invitation to deliver the opening keynote again.

MEMBER EVENTS THIS YEAR	
Jul 2017:	Digital ID
Aug 2017:	NPP Update
Feb 2018:	KYC and Digital ID
Mar 2018:	Stronger Authentication
Mar 2018:	Open Banking in the UK
Jun 2018:	Artificial Intelligence (AI)

Industry conferences and events

AusPayNet participates in industry conferences and forums to share information and stay abreast of developments. This year, we took part in some 120 events both locally and overseas. Topics included innovation, the changing payments mix, payments fraud, digital ID, open data, and emerging technologies. Our international engagements saw us visit a range of countries including the United States, Canada, the Netherlands, New Zealand, the United Kingdom, Singapore and Malaysia.

Member and stakeholder engagement

Our relationship meetings with members and industry stakeholders continued to provide great opportunities for collaboration in 2018. AusPayNet also expanded the definition of the Operator member category to make it easier for more payment companies to join our network. This year, we welcomed 12 new members: Diners Club, EFTEX, NPP Australia, Payments Express, RACQ Bank, SWIFT Services Australia, Volt Bank, Advam, FIS Australasia, Quest Payments, Threatmetrix, and Verifone.

Member survey

To better serve our members, each year we seek feedback on our services through a member satisfaction survey, with the results greatly helping to inform our work. We are delighted to report that this year 89% of members were satisfied with our services, up from 84% in 2017. Our members were clear on what they thought our strategic focus should be over the next three years – managing the payments mix, emerging technology/digital disruption, fraud prevention and digital ID. One area they feel could be further enhanced is member communications.

Exchanging information with international payment associations

Each year, we meet with national payment associations to exchange information and discuss emerging issues from an international perspective. The International Council of Payment Association Chief Executives (ICPACE) was held in May 2018, in San Diego, California. ICPACE brings together associations from Australia, Canada, United Kingdom, United States, Netherlands, New Zealand, and South Africa. This year, we were instrumental in setting up Payments 7 (P7) to provide a forum for open dialogue with payment associations from across Asia-Pacific. The inaugural P7, involving Australia, China, India, Malaysia, New Zealand, Philippines and Singapore, was held in Sydney in December 2017.

Hosting overseas delegations

In January 2018, AusPayNet hosted a session at the British Consulate-General Sydney with The Rt Hon The Lord Mayor of the City of London, Alderman Charles Bowman, and his FinTech delegation. Delegates included the UK Prime Minister's Business Envoy for Financial Services, and UK technology companies focused on banking and payments, insurance, asset management and cyber security.

Bringing the e-commerce community together

Fraud prevention efforts involve strong collaboration and partnerships at every level. This year, we joined forces across the e-commerce community to ramp up the fight against online card fraud. Our February 2018 Accelerator event (see page 14) brought together 70 participants from card issuers, merchant acquirers, retailers, card schemes, payment gateways, payment service providers, regulators and industry bodies. As part of our CNP Fraud Mitigation Framework consultation, we hosted workshops in Brisbane, Sydney and Melbourne in partnership with the Australian Retailers Association. The workshops were attended by 87 people from 54 organisations across the e-commerce community.

Sharing strategic information to fight fraud

Through our Fraud in Banking Forum, financial institutions and law enforcement share strategic information on emerging threats and criminal methodologies. Close cooperation between the two communities helps build an intelligence-led response to gangs operating in Australia. We also work closely with the Australian Financial Crime Exchange (AFCX), established by AusPayNet in 2016. The AFCX provides its participating members with a secure environment for sharing data in real-time to fight financial related crimes and cybercrime.

Keeping the community informed

As the world of payments rapidly evolves, AusPayNet has an important role to play in sharing information which improves understanding of how payments support the economy. We do this through our website, regular publications, events and forums, and media releases throughout the year.

AusPaynet's regular publications, the Digital Economy and Australian Payment Card Fraud reports, track the changing landscape and industry's efforts in ensuring convenient and secure payments. Our newsletter – Payments Monitor – provides a quarterly round-up of payments developments, industry news, recent events and regulatory updates. Through our fortnightly blog, we provide insights on emerging topics that have international as well as local relevance.

In July 2017, we launched our Twitter account to coincide with the roll-out of our new website following last year's rebrand. The number of 'followers' continues to grow steadily, as we build connections with the broader community. In addition to providing a platform for sharing content, Twitter is proving an important interaction tool around industry events.

Australian Payments Council

As secretariat to the Australian Payments Council we continue to support the Council and wider payments community in its work to ensure that as the payments system evolves, it continues to meet the needs of the evolving economy. This year the Council made progress in key areas of cyber security and digital identity.

BOARD OF DIRECTORS

Under the leadership of an independent chair, the Board has 13 members comprising independent directors, the CEO, and non-executive directors appointed or elected by AusPayNet members.

The independent directors have substantial voting rights to ensure public interest and broader community benefits are effectively represented.

There were a number of changes to the Board during the year, and up to September 2018. Rosanna Fornarino resigned from the Board in October 2017 and was replaced by Paul Franklin. Olivia McArdle was elected to replace Simon Babbage in November 2017, and Derek Weatherley replaced Craig Kennedy in April 2018. Long-serving director, Stuart Woodward, resigned in April 2018 after serving 13 years, and was replaced by Lynda McMillan. Anne Collard also resigned in April 2018 and was replaced by Jackie Kallman.

The names of the directors in office as at 30 September 2018 follow.

Robert Craig, Chair
BSC (HONS), BCA, MAICD

*Chief Operating Officer,
Insurance and Care NSW*

Mr Craig was appointed in January 2014 as an independent director and AusPayNet Chair.

He also serves as Chairman and member of the Remuneration Committee.

Paul Franklin, Deputy Chair
BSC, MCOM, EMBA, FFINSIA, GAICD

*General Manager Payments,
National Australia Bank Limited*

Mr Franklin was appointed as a non-executive director by NAB in October 2017 and was appointed by the Board as Deputy Chair in May 2018.

He serves as: Chairman of the Australian Paper Clearing System Management Committee and the Nomination Committee.

Leila Fourie, CEO
PHD ECONOMICS AND FINANCIAL SCIENCE, GAICD

*Chief Executive Officer,
Australian Payments Network*

Dr Fourie was appointed as Chief Executive Officer and a director of AusPayNet in September 2016.

She serves as: Member of the Audit, Risk and Finance Committee, the Remuneration Committee and the Australian Payments Council.

Chris Campbell
BEC, MBUS (FINANCE), MAICD

*Head of Payments Policy and Strategy,
Westpac Group*

Mr Campbell was appointed as a non-executive director by Westpac in April 2003.

He serves as: Chairman of the COIN Management Committee, and member of the Audit, Risk and Finance Committee, the Remuneration Committee, and the Policy Experts Group.

Jennifer Clark
FAICD

Deputy Chair of the Australian Maritime Safety Authority; Chair of Government audit and risk committees

Ms Clark was appointed as an independent director in June 2014.

She serves as: Chairman of the Policy Experts Group, and member of the Audit, Risk and Finance Committee, and the Remuneration Committee.

David Jay
BEC, MBA, FCPA, F FIN, FAMI, MIIA, GAICD

*Chief Executive Officer,
Australian Settlements Limited*

Mr Jay was appointed as a non-executive director by Building Society Members in August 2010.

He serves as: Member of the Nomination Committee.

Jackie Kallman
BPSYCHSC (HONS)

Head of Payments Industry, Australia and New Zealand Banking Group Limited

Ms Kallman was appointed as a as a non-executive director by ANZ in April 2018.

She serves as: Chairman of the High Value Clearing System Management Committee, and member of the Policy Experts Group.

Kees Kwakernaak
MSC, MAICD

Managing Director, First Data Network Australia

Mr Kwakernaak was appointed as a non-executive director by Electing Members in October 2016.

He serves as: Chairman of the Australian Cash Distribution and Exchange System Management Committee, the Next Generation Banknotes Support Steering Committee, and member of the Nomination Committee.

Olivia McArdle
BCOMM (ACCOUNTING & LAW), MBA, CA, MAICD

Head of Deposits and Payment Products, Macquarie Bank Limited

Ms McArdle was appointed as a non-executive director by Electing Members in November 2017.

She serves as: Member of the Audit, Risk and Finance Committee and the Remuneration Committee.

Lynda McMillan

MBUS, GAICD

Head of Payments Representation, Business and Private Banking, Commonwealth Bank of Australia

Ms McMillan was appointed as a non-executive director by the CBA in April 2018.

She serves as: Chairman of the Fraud in Banking Forum.

Michelle McPhee

BBUS (HONS), GAICD

Head of Banking, Reserve Bank of Australia

Ms McPhee was appointed as a non-executive director by the RBA in February 2017.

She serves as: Chairman of the Audit, Risk and Finance Committee, and member of the Nomination Committee and the Remuneration Committee.

Kate Mulligan

BA, LLB(HONS), MAICD

Managing Director, King Irving

Ms Mulligan was appointed as an independent director in June 2014.

She serves as: Chairman of the Issuers and Acquirers Forum.

Derek Weatherley

BCOMM, MACC, GAICD

Chief Executive Officer, Indue Limited

Mr Weatherley was elected as a non-executive director by Credit Union Members in April 2018.

He serves as: Chairman of the Bulk Electronic Clearing System Management Committee.

GOVERNANCE FRAMEWORK

The AusPayNet Board is responsible for setting the company's strategic direction and corporate governance.

Chair and CEO

The current Chair, Robert Craig, was appointed in January 2014 and is an independent voting director. The CEO is charged with implementing Board endorsed strategy and managing the day to day affairs of the company. The CEO is a board-appointed, non-voting, executive director.

Board Committees

The Board has established a management committee for each AusPayNet framework including its clearing systems, Issuers and Acquirers Community, and infrastructure system (COIN). Acting under delegated authority from the Board, management committees are responsible for the efficient operation and management of each framework. Specialized sub-committees are also established under certain frameworks to address technical and operational issues requiring subject matter expertise.

The Board has also established the following committees to assist in managing the company's affairs:

• *Audit, Risk and Finance Committee* – reviews the company's internal financial practices, budget and audit results and monitors the effectiveness of the company's financial controls and administrative policies.

• *Nomination Committee* – supports the Board on matters relating to the eligibility, appointment and election of directors.

• *Remuneration Committee* – establishes remuneration policies and practices for the company generally and recommends remuneration levels and contractual arrangements for the CEO, independent chair and independent directors.

Board Charter, Code of Conduct and Induction

The Board carries out its functions and exercises its powers in accordance with the Board charter, which sets out its role and responsibilities. The charter is supplemented by various board policies including a conflicts management policy, a competition protocol and a Code of Conduct, which all directors and management committee members must comply with, and which is designed to ensure high standards of ethical and professional conduct and compliance. The Board reviews the charter and other policies regularly. An induction program for newly appointed board members provides an overview of AusPayNet's governance and policy framework and operations, as well as an understanding of their role and responsibilities.

Reserve Bank of Australia

As a participant in payment systems, the Reserve Bank of Australia (RBA) has been a member of AusPayNet since its inception in 1992. The RBA has appointed a director to the AusPayNet Board, in accordance with its rights under the AusPayNet Constitution. Additionally, since May 2007, the RBA and AusPayNet have been liaising on payments policy issues under an agreed set of procedures which have been set out in a Memorandum of Understanding, which includes senior staff of the RBA consulting with AusPayNet on a regular basis on issues of common interest. This ensures continued close cooperation between the RBA and AusPayNet.

Risk management

AusPayNet has put in place a risk management framework which the Board oversees. Key risks and risk appetite are regularly reviewed, and the risk framework is submitted to both internal and external review.

LEADERSHIP TEAM

Our Executive Committee is responsible for leading the AusPayNet team in delivering on strategic objectives.

LEILA FOURIE
CEO

NANCY BRYLA
General Counsel

Corporate Governance

Framework and Core Systems Governance

Legal Advice and Guidance

Regulatory Compliance

LYNETTE HICKEY
Chief Financial Officer

Financial Accounting, Forecasting and Reporting

Cash Flow Management

Audit and Compliance

Risk Management

VICTORIA RICHARDSON
Chief Strategy Officer

Payments Innovation and Emerging Technology

Industry Policy and Strategy

Communications and Marketing

Australian Payments Council Secretariat

ANDY WHITE
Chief Operating Officer

Member Services and Engagement

Compliance, including Standards

Project Management

Technology and Operations

MEMBERSHIP

AusPayNet has 124 member organisations including participant members, operator members, COIN members and affiliates.

AUSPAYNET MEMBERS

Adyen Australia Pty Ltd #
Agricultural Bank of China Limited
American Express Australia Limited *
AMP Bank Limited
Arab Bank Australia Limited
Austraclear Limited *
Australia and New Zealand Banking Group Limited #
Australian Military Bank Ltd
Australian Settlements Limited
Auswide Bank Ltd
B&E Ltd trading as Bank of Us
Bananacoast Community Credit Union Ltd
Bank Australia Limited
Bank of America, National Association
Bank of China
Bank of China (Australia) Limited
Bank of Communications Co., Ltd Sydney Branch
Bank of Queensland Limited
Bank of Sydney Ltd
Bendigo and Adelaide Bank Limited
Beyond Bank Australia
Big Sky Building Society Limited
BNP Paribas
BNP Paribas Securities Services
BPAY Group Limited * #
Capricornian Ltd
China Construction Bank Corporation, Sydney Branch
Citibank N.A.
Citigroup Pty Limited
CLS Bank International
Coles Group Limited #
Commonwealth Bank of Australia #
Community First Credit Union Limited
Credit Union Australia Limited
Cuscal Limited #
Defence Bank Limited

Delphi Bank
Deutsche Bank AG
Diners Club *
EFTEX Pty Ltd
eftpos Payments Australia Limited * #
Endeavour Mutual Bank Ltd
First Data Network Australia Limited
G&C Mutual Bank Limited #
Gateway Credit Union Limited
Greater Bank Limited
Heritage Bank Limited
Holiday Coast Credit Union Limited
Hong Kong and Shanghai Banking Corporation Limited - Australian Branch
HSBC Bank Australia Limited
Hume Bank Limited
IMB Ltd
Indue Ltd
Industrial and Commercial Bank of China Limited
ING Bank (Australia) Limited
ING Bank NV (Sydney Branch)
JPMorgan Chase Bank, National Association
LCH Clearnet Limited
Macquarie Bank Limited
Maitland Mutual Building Society Limited
Mastercard Asia / Pacific (Australia) Pty Ltd *
Mega International Commercial Bank Co, Ltd
Members Equity Bank Pty Limited
Mizuho Bank, Ltd
MUFG Bank, Ltd
National Australia Bank Limited #
Newcastle Permanent Building Society Ltd
New Payments Platform Australia *
Oversea-Chinese Banking Corporation Limited

Payments Express
PayPal Australia Pty Ltd *
p&nbank
Police Bank Limited
Queensland Country Credit Union QPCU Limited
Rabobank, Australia Branch (Co-Operative Centrale Raiffeisen-Boerenleenbank B.A.)
Rabobank Australia Limited
RACQ Bank
Railways Credit Union Limited trading as MOVE Bank
Regional Australia Bank
Reserve Bank of Australia #
Royal Bank of Canada
Southern Cross Credit Union Ltd
Standard Chartered Bank
State Bank of India
State Street Bank and Trust Company
Sumitomo Mitsui Banking Corporation
Summerland Credit Union Ltd
Suncorp-Metway Limited #
SWIFT Services Australia Pty Ltd*
Taiwan Business Bank, Sydney Branch
Teachers Mutual Bank Limited
The Rock
Tyro Payments Limited #
UBS AG, Australia Branch
United Overseas Bank Limited
Uniting Financial Services
Unity Bank Limited
Victoria Teachers Limited, trading as Bank First
Visa AP (Australia) Pty Ltd *
Volt Bank Ltd
Warwick Credit Union Ltd
Westpac Banking Corporation #
Woolworths Limited #

Operator Member

COIN MEMBERS

Cabcharge Australia Limited
First Data Resources Australia Limited
Fuji Xerox Australia Pty Limited
Genpact Australia Limited
Property Exchange Australia Limited
Transaction Network Services Australia Pty Ltd

 # Also a COIN member

AFFILIATE MEMBERS (ISSUERS & ACQUIRERS COMMUNITY)

Advam
Cardtronics Australasia
Diebold Nixdorf
Gemalto
Giesecke & Devrient Australasia
IBM Australia Limited
Ingenico International (Pacific) Pty Ltd
NCR Australia Pty Ltd
Optus
Quest Payment Systems Pty Ltd
Thales
Threatmetrix
UL Transaction Security
Verifone

Members as at 30 September 2018

GLOSSARY

ACDES	Australian Cash Distribution and Exchange System
AI	Artificial Intelligence
APC	Australian Payments Council
APCS	Australian Paper Clearing System
APRA	Australian Prudential Regulation Authority
BECS	Bulk Electronic Clearing System
Blockchain	A distributed ledger
CNP	Card-not-present
COIN	Community of Interest Network
CSIRO	Commonwealth Scientific and Industrial Research Organisation
Digital ID	Digital Identity
Direct Entry	Payments system for direct debits and direct credits
EMV	Europay, MasterCard, and Visa
Fintech	Collaboration between financial services companies and technology innovators
HVCS	High Value Clearing System
IAC	Issuers and Acquirers Community
ISO	International Organization for Standardization
KYC	Know Your Customer
NIST	National Institute of Standards and Technology
NPP	New Payments Platform
OPAL	NSW public transport ticketing system
PCI	Payment Card Industry
PCI SSC	PCI Security Standards Council
POS	Point-of-sale
QR Codes	Quick Response Codes
RBA	Reserve Bank of Australia
SWIFT	Society for Worldwide Interbank Financial Telecommunications